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Economy & Efficiency Commission
Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

PRESENTATION BY
Mr. David Janssen
Los Angeles County Chief Administrative Officer
Topic: State of the Los Angeles County Budget

July 12, 2001

Chairman Philibosian introduced the Los Angeles County Chief Administrative Officer, Mr. David E. Janssen. Mr. Janssen was appointed by the Board of Supervisors on August 26, 1996 and has had 28 years of experience at the local and state level as a public administrator. Thirteen of those years were as Assistant Chief and Chief Administrative Officer in the County of San Diego. Previously, he was Director of the State Department of General Services, Assistant Secretary of the Agriculture & Services Agency and program analyst for the State Department of Finance.

Mr. Janssen greeted the Commission by declaring that the State of Los Angeles County is "O.K." The economy is having an impact on the Los Angeles County Budget but has not been as dramatic as on the State of California because the state's revenue sources are different (income and corporate taxes). The Governor's philosophy of using the state surplus for one-time purposes has proved him right. The state revenues have collapsed with a $3-$4B shortfall. If there had been a normal expenditure pattern in Sacramento, there would have been huge problems. The problem exists, but there are reserves and over the next couple of years the economy is expected to turn around. When the "dot coms" went, the state's budget went.

Fortunately, Los Angeles County is not dependent on that market, but rather on the vehicle license fee "back fill". When Governor Wilson cut the vehicle license fee, he used the state general fund to make up the loss to cities and counties. The vehicle license fee tax was cut 65%, which is over $600M per year.

At the moment, the State of California has no budget. Two years ago the court's decision was to require the state to pay its bills. (Formerly, registered warrants created payroll deadline hysterics in Sacramento.) When the state attempts to sell their revenue bonds next month with no budget (due to cash spent on energy) they might find difficulty in locating buyers. If another $600M has to be cut, the concern is that education will suffer.

Los Angeles County's budget growth was 2.7% for the current year, which is two percentage points lower than during the past several years. A small surplus was generated in a proposed budget of about $34M. Most was to be allocated by the Board of Supervisors for one-time expenditures, or for filling holes in departmental expenditures. A change letter added another $200M to the budget in revenue-offset positions so that the budget is currently $16.243B. Of the additional growth, $32M went towards energy. This meant the energy budget has doubled from $100M to $200M, and most of this is natural gas. Two weeks ago it was $3.80. Mr. Janssen asks, "Is there an energy crisis? "Are we going to have blackouts?" The county does not know. The estimate of energy costs, including the action of the PUC (Public Utilities Commission), has doubled for next year. The county was able to cover the costs in the general fund with increased revenue for next year; however the Libraries, the Fire Department, the Health Department and those departments who have slow growth revenues are in jeopardy. The hope is that the energy crisis will be resolved so that wildly fluctuating energy costs will not occur or increase.

All of the revenue assumptions for the current year from Property Tax, Sales Tax and Vehicle License Fees (VLF) have been reduced. The Board of Supervisors conservative expenditure mode has been developed to avoid cuts in programs.

Mr. Janssen handed out the County of Los Angeles 2001–02 Proposed Budget Charts and focused on the Health Department Chart. Property Tax is the Los Angeles County's greatest revenue at 43%; Los Angeles County is contributing $1B of Property Tax to the Education Revenue Augmentation Fund (ERAF). This contribution saves California over $4B, statewide. The county receives Prop. 172 Sales Tax which offsets about $500M of the $1B. However, the county is still short $400M per year in Property Tax revenue that has not been replaced by the state. This would solve the Health Department problem. That is why Los Angeles, who was disproportionately impacted by the transfer, continues to raise this issue with Sacramento.

Chairman Philibosian asked Mr. Janssen to explain ERAF. Mr. Janssen stated that in 1992 and 1993 the state was facing its own double-digit deficits: $14B in one year, $11B the next. In the first year of Governor Wilson's term he had to raise taxes by $7B, and cut services by $7B. In 1992-1993 and 1993-1994 the legislature transferred property tax from local government to education to help the state balance its budget. (The state is also responsible for equalizing funding for education.) This transfer was clearly devastating to local government who had its own economic problems. Therefore in 1994, to help mitigate the impact, the state got the voters to extend sales tax for public safety to help offset the loss of the transfer. (Counties and cities have tried for the last seven years to get the state to return the funds they transferred.) The county has on two occasions been successful in getting one-time expenditures from the state on the basis of an ERAF return, however the funds have never been permanently returned.

Mr. Janssen continued discussing the Health Budget: the hospitals are now 65% of the expenditures, whereas ten years ago they were 75%. This data reflects two issues: 1) increased expenditures in Public Health, and 2) the success of the first five years of the waiver which was intended to decrease in-patient expenditures, and increase outpatient expenditures. (Outpatient expenditures are about $200M.) Unfortunately, in the Health Department, the bulk of the revenue is driven by inpatient reimbursement. The federal government does not fund outpatient, uninsured or undocumented patients' care. The first waiver permitted federal funds to be funneled into outpatient services. The second five year waiver is valued at $900M over the five years. (A full five-year planning would be worth $1.23B.) The county did well in terms of the revenue, but the waiver will be discontinued at the end of five years. The new five-year waiver has a requirement that the county maintain outpatient services at three million visits; this is a reversal of the federal requirements for the county; i.e. the county is losing the revenue that supports outpatients, but the county is required to maintain the outpatient facility while the county figures out what to do with the budget.

Mr. Janssen argued that the structural problems of a separate health authority could divert attention from the real problem, which is the $600M deficit. The county budget last year was balanced with very little use of waiver funds other than as a one-time resource. Federal revenue is no higher than what it was before the county started the whole waiver. It is not costing the federal government any more to give the county the $252M. The county will lose $252M in revenue costs - while salaries, contracts, the cost of living, drugs and pharmaceuticals will increase every year. All of the revenues in the departments are essentially flat. Realignment grows $10M a year. The figure reported in the media is a $900M cumulative loss over five years. Figures related to the deficit are one of the county's challenges because the departments' revenue expenditure pattern is so complicated that it changes constantly.

Mr. Janssen stated that this year the budget is balanced, but the county is using some of the reserves. This fiscal year will end with about $243M in the Health Department. Next year the reserves will be depleted. In 2003 – 2004 there will be a significant deficit, which will continue every year, thereafter.

Commissioner Hill asked whether the mandates were negotiable. Mr. Janssen replied, "No." However, he continued that revenue for patients should be negotiable. The Health Department is totally rethinking their strategy as to how to present this to the Board and is "zero basing" their budget. The question is what would the department look like at a $2.1B outreach? If the budget needs a 20% cut, minimally, there will be ramifications throughout the entire health care system of Los Angeles, and maximally throughout the nation.

Mr. Janssen explained that cutting the hospital from the budget would cost the county $4.00 for every $1.00 that is saved. L. A. County can cut outpatient services and have a dollar per dollar saving, but the county is precluded from cutting outpatient services. The newspapers routinely report that the problem is huge; however it has not crystallized in anyone's mind about how serious it really is. When the problem begins, the public will ask, why weren't we informed? However, the county has an opportunity to figure out ways to resolve the issue. Mr. Janssen felt that a combination of efficient internal management, new revenue and service reductions are part of the solution.

Mr. Janssen concluded that this is an inauspicious time for the state to have financial problems while the federal government rebates taxes. Counties provide 85% of uncompensated health care and the revenues simply will not support it. Health care is a national problem.

Commissioner Hill asked whether following the revenue streams to the patient was negotiable? Mr. Janssen responded that the Board of Supervisors has begun discussions with the Administration so that L. A. County would not lose the four to one option. Commissioner Hill stated that Los Angeles County is unique in the way that it has historically treated the most needy population and asked Commissioner Tortorice about the reengineering of the outpatient study that he had been involved in. Commissioner Tortorice responded that yes, there was a study at an outpatient clinic to improve services and increase through put. The result of the study was that the department took on a larger reengineering project.

Commissioner Hill asked how Mark Finucane, the Director of Health Services would be replaced. Mr. Janssen replied that Hiedrick and Struggles have been hired to recruit a health director who knows how to operate a hospital system that is running at a deficit. The caliber of the applicants is still an unknown factor. Even if $200M could be saved, there is still a $400M deficit. Commissioner Thompson remarked that bringing someone from private industry often results in insensitivity to the county culture as it relates to a job for life kind of mentality. Sometimes the solution is worse than the problem. Mr. Janssen agreed that government is not the private sector. The laws, rules, civil service system and purchasing regulations are what the voters and society require from government.

Commissioner Padilla stated that Sacramento has a very negative mentality towards the Board of Supervisors, plus the Board has no term limits. Mr. Janssen responded that Los Angeles County is gigantic and it is difficult for Sacramento to financially solve a state problem that involves Los Angeles because the rest of California is often reparable. The Board is working with Sacramento regularly in an attempt to solve problems.

Commissioner Stoke mentioned that he had discussed some of the problems with the private hospitals and suggested to them that they try to work with the Chief Administrative Office, and asked whether this cooperation had been forthcoming? Mr. Janssen responded that it was still too early to answer that question; the time to do that would be when the department presents all of the options for public discussion.

Commissioner Tortorice stated that the issue has to do with structural problems concerning reimbursement to the Health Department, and is being taken care of in Washington. However, the problem is intractable from Washington's point of view. Mr. Janssen responded that the issue has to do with funding. Commissioner Tortorice asked if it were about the funding or how it was allocated. Mr. Janssen answered that it was the total amount of funding. There has not been enough dialogue with the Administration to indicate whether or not they support the waiver. Washington is aware that the waiver is still there, which means it has not been eliminated (there is a five year commitment that is not legally binding). Commissioner Tortorice noted that the focus is on the person who can operate in Washington, rather than on the waiver. Mr. Janssen agreed and stated that the solution may be two people, which makes the replacement even more expensive. Mr. Janssen replied that it is rare to find a person that has both skills.

Commissioner Sylva asked what programs could Los Angeles County embark upon to eliminate the dependence upon state and federal funds for the healthcare situation? Are there any creative, innovative programs, such as promoting economic development projects, which would bring in sales tax and property tax to the county? Mr. Janssen responded that the county receives less than a quarter of every dollar that is generated in property tax the rest goes to cities and schools. The county sales tax receipts are $45,000,000, the budget is $6.2B. We have minimum ability to impact our economic condition. Everything we can do to improve the economic situation in Los Angeles does benefit the county. That is why we put money in the LAEDC and the Visitor's Bureau Convention; and the best social program is a job. There are resulting consequences in behavior, culture, and attitude.

Commissioner Fuhrman said that back in 1991, 92 and 93 when the real estate market tanked, many property owners went through the Prop. 8 Reassessment process and lowered their taxes. In Los Angeles everything is back to where it was two or three years ago. However, no one did anything about resident's tax reduction. Finally, the Assessor said this year that there was a notice that the property tax went back to the market value and then upped 2%. There are hundreds of thousands of properties and the Assessor is proceeding on a one by one basis. Everyone who got marked down in 1992 should be brought back to market value.

Commissioner Baltierrez asked whether part of the answer to healthcare is people being employed. Mr. Janssen responded that as the large corporations disappear and because Los Angeles County is a small business based economic system the working poor have no health insurance. Having a job does not solve the health insurance problem. Mandating that employers supply health insurance for employees will cause business to leave California. Commissioner Baltierrez asked whether it was safe to say that because people are employed funds saved by social welfare can be invested in healthcare? Mr. Janssen answered yes, however welfare has been successful to date because they have not shifted funds. Commissioner Sylva asked whether it were common sense that if an employee is gainfully employed they may not have health insurance, but they can afford health insurance more readily. Mr. Janssen replied that people on welfare have MEDICAL, and 2.4 Million people are uninsured (a portion of those are young adults who do not want health insurance and do not think they need it). Commissioner Thompson asked whether it were true that a lot of health insurance in the state of California available to children was not being used? Mr. Janssen responded that Healthy Families is that program, however it costs money. Commissioner Fuhrman added that in Pasadena the school district is making very concerted efforts to work with the children to get them insured through the Healthy Families Program. Commissioner Oakes asked how long a person has to be uninsured before he/she are considered among the uninsured? Mr. Janssen responded that he did not know.

Chairman Philibosian asked if there were any other questions relevant to the county budget? Commissioner Fuhrman stated that the county puts $680M into health, which is one fifth of the county's discretionary funds. Wouldn't it make sense to separate the Health Department so that it remains on an even keel? Mr. Janssen replied that legally the county is responsible for uncompensated care.

Commissioner Thompson asked how the decision was made to add $4.7M in revenue offset funding for eighteen positions of the Department of Children and Family Services for the Independent Living Program, when the whole department is in utter chaos: one of the indicators being that the DCFS consultants who were assigned to work with the Economy and Efficiency Commission were removed for being incompetent half way through the study. Mr. Janssen replied that it was item five on the upcoming agenda.

Commissioner Baltierrez asked it was if Mr. Janssen's recommendation to the Board of Supervisors to take the Independent Living Program from DCFS and give it to the Chief Administrative Office? Mr. Janssen responded that MacLaren Hall did not belong in his office because it is a line operation. The Chief Administrative Office is running MacLaren Hall and long term this makes no sense in that it should belong with a department under Children's Services or Probation. The problem that the Board of Supervisors is having is whether they are going to wait for the Independent Living Study to be completed or transfer the program immediately. Each Economy and Efficiency Commissioner should speak to his or her member of the Board of Supervisors on Tuesday and explain the need for the completion of the study. The McLaren Committee report outlined a number of similar problems. If the E&E Commission could present an interim solution while the report is being finished, then the Board could consider that.

Chairman Philibosian thanked Mr. Janssen for taking time out from his schedule to make this informative presentation, and volunteered the assistance of the E&E Commission in any future efforts of the Chief Administrative Office in which the commission could make a meaningful contribution.

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